MONTANA'S PUBLIC RETIREMENT SYSTEMS

A Legislator's Guide 1993

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Public Retirement Systems
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1993

Joint Interim Subcommittee on
Public Employee Retirement Systems

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Preface

This information booklet is produced by the 1992 Joint Interim Subcommittee on Public Employee Retirement Systems.

The Subcommittee's study found that the complexity of issues, several state plans, and numerous retirement bills have made consistent and equitable retirement policy difficult to enact. The Subcommittee believes that this guide will assist legislators in making sound judgments on retirement legislation.

The retirement funds are trust funds upon which thousands of public employees and retirees rely. The Legislature is entrusted with ensuring that these systems are soundly funded and equitably administered so that each system continues to provide the fiscal security promised to current and future retirees.

The Subcommittee recommends that, prior to each legislative session, a joint permanent statutory retirement committee review and report on all retirement proposals. It is the intent of the Subcommittee that this statutory committee be responsible for biennially updating and publishing this guide.

Introduction

Title 19 of the Montana Code Annotated (MCA) provides for 10 statewide public retirement systems (including the University System Optional Retirement Program (ORP)) and for local police and fire pension trust funds. The combined assets of the systems are $2.3 billion, with $3.7 billion in total liabilities. Of these liabilities, only $977 million are unfunded by anticipated future contributions.* These retirement systems cover more than 56,000 state and local employees. There are nearly 46,000 active plan participants and 18,500 retirees and beneficiaries.

Membership in a public retirement system is mandatory for employees of the state and of the state's political subdivisions that have contracted for coverage.

The Retirement Systems Under the Public Employees' Retirement Board

Eight public retirement systems are administered by the Public Employees' Retirement Board:

- Public Employees' Retirement System (PERS)
- Sheriffs' Retirement System (SRS)
- Municipal Police Officers' Retirement System (MPORS)
- Firefighters' Unified Retirement System (FURS)
- Highway Patrol Officers' Retirement System (HPORS)
- Game Wardens' Retirement System (GWRS)
- Judges' Retirement System (JRS)
- Volunteer Firefighters' Pension Trust Fund

The Public Employees' Retirement System is the largest system, consisting of most of the state's nonteaching public employees.

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* Data Taken from financial reports (as of June 30, 1992) prepared by the Public Employees' and Teachers' Retirement Divisions.

All of the above systems are defined benefit plans. The systems pay eligible retirees a monthly benefit prescribed by a formula. Except for the Volunteer Firefighters' Pension Trust Fund, the formula is used to calculate benefits based on a percentage of salary per year of service.

These systems are also "cost-sharing" plans funded by both employer and employee contributions in addition to investment earnings. The Volunteer Firefighters' Pension Trust Fund is funded entirely by insurance premium taxes and investment earnings.

The Teachers' Retirement System

The Teachers' Retirement System (TRS) covers all members of the teaching profession, except persons teaching less than 30 days in a school year, and is nearly as large as the Public Employees' Retirement System. The Teachers' Retirement System is also a defined benefit, cost-sharing plan.

The University System Optional Retirement Program

Administrative officers and scientific and instructional staff of the University System may elect to join the University System Optional Retirement Program rather than the Teachers' Retirement System. The University System Optional Retirement Program is a defined contribution plan. Rather than promising certain defined benefits, a defined contribution plan provides a variable annuity defined by the contributions made to and the investment earnings on individual members' accounts. Benefits will vary according to accumulated contributions and investment gains or losses.

Whether the option to join the University System Optional Retirement Program will significantly affect the cost of the Teachers' Retirement System because fewer teachers will be contributing members of Teachers' Retirement System is still being debated. An independent actuarial study, requested by the 52nd Legislature, has been contracted for through the Office of the Legislative Auditor and will be submitted to the 53rd Legislature.

Local Retirement Funds

Police officers and firefighters in municipalities that do not participate in the police officers' or firefighters' statewide plans, respectively, may be members of a local police or firefighters' retirement fund. These plans are defined benefit, cost-sharing plans.

How Benefits Are Determined Under Each Plan

For the defined benefit plans, the basic pension benefit formula used to calculate a members' benefits is expressed as:

"X"% (or 1/X) x avg. salary x years of service

The percentage or fraction used, how average salary is determined, what service is creditable, and when a member may become eligible to receive a normal retirement benefit differ under each plan.

Members become eligible to draw a normal or full monthly retirement benefit upon reaching a prescribed age and/or upon completing a prescribed number of years of creditable service.

Under the University System Optional Retirement Program, a retiree may begin receiving his or her annuity at any time after terminating employment. The longer a member keeps his or her money in the annuity plan, the larger the monthly allowance will be when the annuity is paid.

Postretirement Adjustments

Montana's public retirement systems currently have limited postretirement adjustment provisions, which are summarized in Table 8.

Increasing retirees' monthly benefits to help offset inflation is an ongoing policy issue. From time-to-time, the Legislature has provided ad hoc cost-of-living adjustments (COLAs) to retirees. Ad hoc increases are not prefunded by employer or employee contributions. While individual ad hoc increases may be less expensive in the short-term, in the long-term, they are more expensive than automatic prefunded COLAs because plan members do not make contributions to help fund a future ad hoc COLA.

Moreover, investment earnings will not be available to help fund the benefit because contributions during the members' active service are not put aside for the COLA.

Montana's public employee and retiree organizations are intensifying their lobbying efforts for prefunded guaranteed annual benefit adjustments (GABAs) for retirees. A GABA is not tied to a cost-of-living index and is therefore not considered a COLA.

Why Several Retirement Systems?

Over the years, certain groups of employees have felt that they needed a retirement system responsive to their specific needs. Teachers, public safety officers, and judges have desired different benefit features because of differences in occupational demands. To meet these special needs, the Legislature enacted separate retirement systems for certain employee groups.

The following is a simple chronology of when each of Montana's public retirement systems was created:

Early 1900s	At various times, cities and towns developed individual pension plans for police officers and firefighters. In 1915, a statewide teachers' plan was created.
1937	The 1915 statewide teachers' plan was terminated, and a new statewide Teachers' Retirement System was established for all members of the teaching profession.
1945	The Public Employees' Retirement System was established for general nonteaching employees of the state, the University System, and the state's political subdivisions. At the same time, the Highway Patrol Officers' Retirement System was established as a separate system.
1963	The Public Employees' Retirement System was amended and a separate Game Wardens' Retirement System was established.
1965	A statewide pension trust fund was created for volunteer firefighters in unincorporated areas.

1967	The Public Employees' Retirement System was amended to provide a separate Judges' Retirement System.
1974	The Public Employees' Retirement System was again amended to provide a separate system for sheriffs.
1977	Financial trouble for local police pension systems led to the consolidation of retirement funds in first- and second-class cities into a statewide Municipal Police Officers' Retirement System. Smaller cities may elect to join the statewide plan.
1981	As with the local police retirement systems, financial problems with local firefighters' retirement funds led to the consolidation of the funds into the statewide Firefighters' Unified Retirement System. Although eligible, most smaller cities did not elect to join the statewide plan.
1983	Administration of the Volunteer Firefighters' Pension Trust Fund, established in 1965, was assigned to the Public Employees' Retirement Board.
1987	The Optional Retirement Program was established under the University System to provide more portability of retirement benefits and to enhance academic mobility. Certain academic and professional employees with contracts under the Board of Regents may choose to participate in either the Teachers' Retirement System or the Optional Retirement Program.

Retirement Boards
and System Administration

The Public Employees' Retirement Board

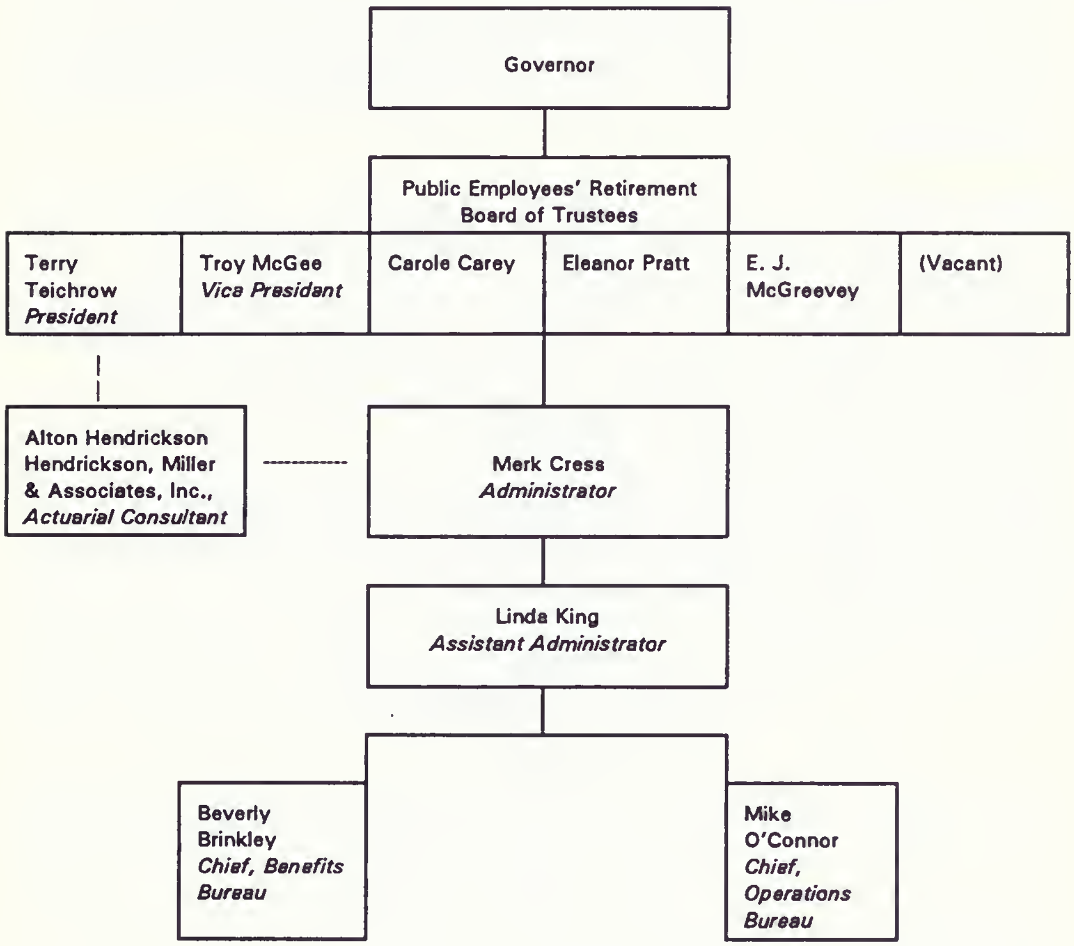
The Public Employees' Retirement Board (Board) administers eight separate retirement systems: the Public Employees', Sheriffs', Municipal Police Officers', Firefighters' Unified, Highway Patrol Officers', Game Wardens', Judges', and Volunteer Firefighters' Retirement Systems. The Board sets administrative policies, determines the annual interest rate credited to individual member accounts, and retains a qualified actuary to investigate and report on the fiscal condition of the systems. Board members have fiduciary responsibility for the pension trust funds.

The Board consists of six members appointed by the Governor for staggered 5-year terms. By law, three members must be active public employees, one member must be a retired nonteaching public employee, and two members must be chosen from the public at large. The Board is attached to the Department of Administration for administrative purposes only.

The Board is staffed by the Public Employees' Retirement Division. The Division administrator and Division staff are classified state employees hired by the Department of Administration. (See Figure 1.)

The Board annually publishes a financial report on the eight public retirement systems it administers. The report outlines administrative costs and the basic provisions, membership, assets, liabilities, investment earnings, and funding status of each retirement system. The report also summarizes the basic assumptions used to evaluate each system's fiscal condition. A complete actuarial valuation of each system is conducted and published every 2 years.

Figure 1
The Public Employees' Retirement System
Organizational Chart
1992



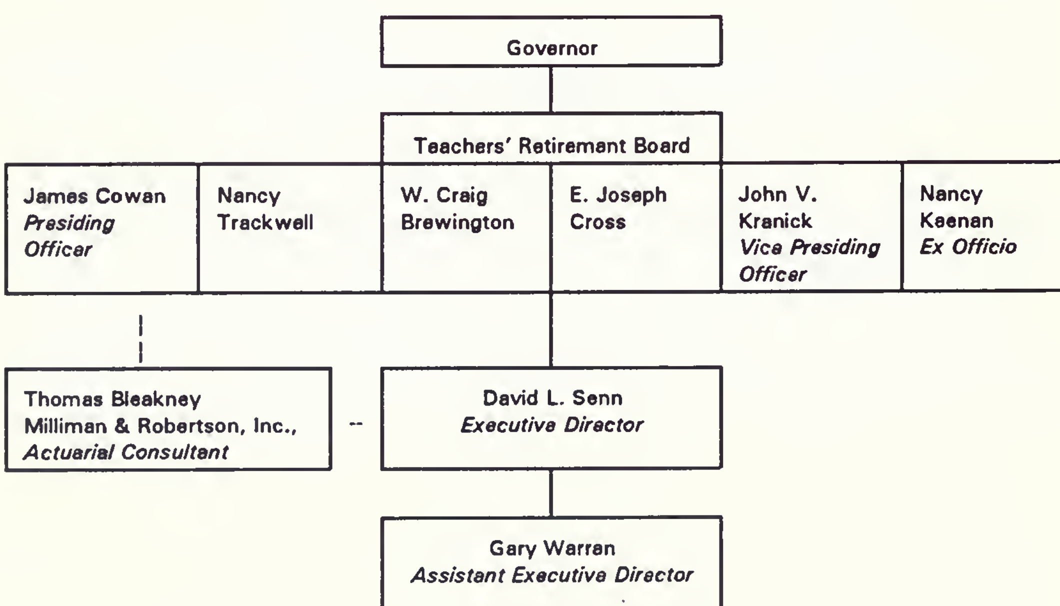
The Teachers' Retirement Board

The Teachers' Retirement System, like the Public Employees' Retirement System, is administered by a six-member board appointed by the Governor. Members of the Teachers' Retirement Board serve staggered 4-year terms. By law, the Teachers' Retirement Board consists of the Superintendent of Public Instruction, two teachers who are members of the retirement system, two members of the public at large, and a teacher who retired under the system.

Similar to the Public Employees' Retirement Board, the Teachers' Retirement Board establishes administrative policies, sets the interest rate to be earned on members' contributions, and retains an actuarial consultant. The Teachers' Retirement Board publishes a biennial actuarial report and a biennial fiscal report on the Teachers' Retirement System. The Teachers' Retirement Board is allocated to the Department of Administration for administrative purposes.

Unlike the Public Employees' Retirement Board, which is staffed by employees of the Department of Administration, the Teachers' Retirement Board may hire its own staff. (See Figure 2.)

Figure 2
The Teachers' Retirement System
Organizational Chart
1992



University System Optional Retirement Program

The Optional Retirement Program is administered by the Board of Regents. The duties of the Board of Regents include designating the company or companies from which individual annuity contracts are purchased and determining the nature and extent of the rights and benefits to be provided under the contracts.

Local Boards

A local police officer or firefighter retirement fund is administered by a local board of trustees.

Currently, only three cities have established local municipal police officer retirement funds, each of which is administered by a five-member board of trustees. Members of the board of trustees consist of the city's mayor, clerk, and attorney and two active police officers. The trustees who are police officers serve staggered 2-year terms. A report on the fiscal condition of the fund must be submitted by each board to the State Auditor each year. By law, the Public Employees' Retirement Board must have an actuary conduct an actuarial valuation of the local police officer pension plans every odd-numbered year.

A local fire department may establish a disability and pension fund through a fire department relief association, which must be incorporated under the laws of the state. The disability and pension fund is administered by a seven-member board of trustees. Trustees are elected each year by association members. The president of the relief association and the fire department chief are ex officio members. This board of trustees has full control of the fund, which by law is held by the association's treasurer and must be kept separate from other funds.

Funding the Retirement Plans

Contributions

Title 19, MCA, defines the amount, as a percentage of salary, that the employer and employee must contribute to a retirement system. In addition, all but the Public Employees', Teachers', and Sheriffs' Retirement Systems rely on funding from special revenue sources, such as the insurance premium tax fund, vehicle registration fees, fines and forfeitures, and District Court and Supreme Court fees.

Employee contributions are mandatory and are accounted for separately. These contributions are credited with interest at a rate set by the respective system's board. When terminating employment, a vested employee may choose to withdraw his or her contributions, plus interest, in lieu of a retirement benefit. A nonvested employee whose service ends is eligible only for a refund of his or her contributions, plus interest at the rate set by the administering board.

Employers are required to contribute a percentage of total covered payroll. These contributions are not credited to individual members but are commingled and used to meet the system's overall funding obligations.

The percentage of total payroll that must be contributed to fund each retirement system is determined by biennial actuarial valuations.

Investment Earnings

Pension trust funds are invested by the Montana Board of Investments. Investment earnings accrue as assets to each retirement system. Actuaries of the systems administered by the Public Employees' Retirement Board and the Teachers' Retirement Board have assumed an 8% average investment return. Four of the retirement systems (the Public Employees', Teachers', Sheriffs', and Game Warden's Retirement Systems) rely on investment earnings over 8% for postretirement benefit increases.

The systems' funds are invested in four major areas: Short Term Investment Pool, Montana Common Stock Pool, securities, and mortgages. Retirement trust funds are the only funds that the Board of Investments may invest in equities and venture capital.

Local police officers' and firefighters' surplus funds are invested by the local boards of trustees in time or savings deposits, U.S. bonds or securities, and government general obligation bonds. Surplus funds are defined as the greater of 1 1/2 times the monthly benefit paid in the preceding month or $5,000. If the Board of Investments is earning returns 1% higher than the local boards, then the local boards may remit the surplus funds to the State Treasurer for the Board of Investments to manage.

Other Funding Sources

The Legislature has provided that in addition to employer and employee contributions and investment earnings, special collections are to be used to fund six of the nine statewide defined benefit plans. The Volunteer Firefighters' Pension Trust Fund is funded entirely from the insurance premium taxes and investment earnings. The Judges' Retirement System relies on court fees in addition to employer and employee contributions. Highway patrol officers' retirement benefits are largely funded by vehicle registration and driver's license fees. Certain fines and forfeitures supplement the Game Wardens' Retirement System, and the Municipal Police Officers' and Firefighters' Unified Retirement Systems are subsidized by the insurance premium tax fund. Insurance premium taxes also provide funds for local police officer and firefighter pensions.*

Actuarial Valuations

An actuarial valuation is a mathematical investigation to determine the financial condition of a retirement system at a particular point in time and to project the system's future funding needs.

* The percentage of covered payroll used to fund benefits from special collections is shown in Table 5.

Based on assumptions about rates of mortality, disability, withdrawals, salary increases, investment returns, market gains and losses, and administrative and investment expenses, an actuarial valuation determines:

(1) Current Assets: the adjusted market value of the system's assets, with investment gains and losses smoothed over a 3- or 4-year period;*

(2) Normal Cost Contribution Rate: the percentage of each member's salary that is required to fund current benefits as they accrue;

(3) Future Liabilities: the present value of current benefits as they will accrue in the future for current members;

(4) Total Liabilities: the present value of all past and future costs for all current and retired members;

(5) Unfunded Liabilities: the portion of total liabilities that cannot be funded by current assets or anticipated future contributions and investment earnings (Total Liabilities - Future Liabilities - Current Assets = Unfunded Liabilities);

(6) Amortization Period of Unfunded Liabilities: the period of time it will take to pay off current unfunded liabilities based on available contributions;

(7) Actuarial Soundness: a system is actuarially sound when contributions are sufficient to pay for the normal costs of benefits as they accrue and to make payments on the unfunded liability. The boards of the statewide public retirement systems have set a 30-year amortization period as the outside limit on what is an acceptable funding period for Montana's public retirement systems. This policy is consistent with federal requirements for amortization periods of no more than 30 years for private pension systems.

An actuarial valuation of Teachers' Retirement System and of each of the eight systems administered by the Public Employees' Retirement Board is conducted every 2 years.

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* This method is used by actuaries for Montana's public retirement systems. Other systems may use a different method.

Because the consulting actuary's assumptions are crucial to each valuation, experience studies are conducted every 5 years. Future assumptions can then be adjusted, if necessary, to keep assumptions consistent with the actual experience of the plan. Independent actuaries may also periodically audit the valuations.

Actuarial valuations are not required to determine the fiscal status of defined contribution plans, such as the University System Optional Retirement Program, because defined contribution plans do not have unfunded liabilities. The benefit paid under the Optional Retirement Program is an annuity equivalent to the members' accumulated contributions, plus interest. Such factors as the time and length of annuity payments are decided according to the payment option selected by the member.

Unfunded and Funded Liabilities

While unfunded liabilities may arise in defined benefit plans for various reasons, the most common reason is when a benefit enhancement is granted for service performed prior to the enhancement's effective date, thus obligating the system to pay a benefit for which contributions have not been paid. Consequently, the system incurs a debt, i.e., an unfunded liability.

For example, if the formula for retirement benefits is increased from 2% to 2.5% of salary per year of service and is made applicable to prior service (instead of only to service performed after the increase is enacted), an unfunded benefit obligation for past service has been created.

A legislator asked to support a benefit enhancement may also be asked to support one of the following funding mechanisms:

(1) Increase contributions to <u>both</u> fund the normal cost of the enhancement <u>and</u> amortize (in 30 years or less) any unfunded past service liability. Although not yet required by federal regulations for public retirement plans, this is the funding standard adopted by the Teachers' and Public Employees' Retirement Boards and required by federal regulations for private pension plans.

(2) Increase contributions, but not enough to meet the funding standard in (1) above. If contributions are not raised enough to pay for at least the

normal cost of the enhancement, the system's unfunded liability will compound as benefits are being earned but not sufficiently funded. If contributions are raised enough to cover normal costs but not enough to meet a 30-year amortization schedule as in (1) above, the amortization period will be increased. In many ways, the amortization period becomes a system's "shock absorber", but policymakers will have to consider sound policy principles and how far the amortization period can be extended before the system is underfunded.

(3) Apply the benefit enhancement only to service earned after the benefit is enacted. This will control costs because no debt for past service is created. However, this option results in a tiered system in which members of the same plan will receive different benefits.

(4) Do not increase contributions to pay for the benefit enhancement, which results in either an increase in the amortization period or an actuarial determination that the system is unsound.

The fiscal and policy implications of each of the above funding options will depend on the fiscal strength of the affected system(s), the acceptability of extending the amortization period, and equity issues. Another issue is how increases in contributions should be shared between the employer and the employees.

Legislators must consider both the merits of a benefit enhancement as a matter of policy and the merits of how the benefit will be funded.

No unfunded liabilities are created in defined contribution plans, such as the University System Optional Retirement Program, nor is an actuarial determination required to determine the fiscal status of that program. Annuities are paid based on what the contributions, plus interest, will fund.

What Makes a Retirement System Fiscally Sound?

Contributions and interest earnings must be sufficient to pay for benefits already earned, benefits being earned, and administrative and investment expenses.

A system is actuarially sound if:

(1) the system has adequate and consistent funding sources;

(2) a specific contribution schedule is followed to amortize the unfunded liability (if any) over a limited number of years; and

(3) actuarial assumptions are tested regularly for appropriateness, with changes made as experience warrants.

However, whether or not a system is responsibly funded is a matter for public policymakers to debate. Legislators must consider their obligation to provide for the financial security of current and future public retirees, as well as their responsibility to current and future taxpayers.

Other Legislative Policy Issues

The Leapfrogging Effect

Because Montana has several separate retirement systems, the members of one system may lobby for a benefit enhancement one year and members of another system may lobby for a similar or better benefit the next year. Benefit enhancements for smaller systems are generally less costly than for the larger systems and can, therefore, be easier to promote. The same type of benefit enhancement being granted to members of one system during one legislative session and to members of another system during the next legislative session, and so on, is called the leapfrogging effect.

Granting benefit enhancements by letting the retirement systems play leapfrog with each other can lead to inconsistent and inequitable retirement policy. To help prevent this, legislators should ask:

> ***If the proposed benefit enhancement is appropriate for members of this system, is it appropriate and should it be granted for members of the other systems? Why? Why not?***

A benefit enhancement may be appropriate for members of one system and not for members of the other systems. For example, an enhanced disability benefit may be appropriate for police officers and firefighters but not for members in less hazardous occupations. However, if a proposed enhancement is appropriate for members of other systems, the Legislature should consider granting the enhancement to members of the other systems. This would help ensure that all public retirees are treated fairly.

The Ratchet Effect

Just as a ratchet can be tightened but not loosened, the law provides that once a retirement benefit is promised, it cannot be reduced. If a benefit is given but is later determined to be too costly or unwarranted, the only remedy available is to enact a reduced benefit for new employees hired

after the reduced benefit's effective date.

Although the Legislature has resorted to this remedy in the past, equity and fairness issues have led subsequent Legislatures to reenact the higher benefit for the employees hired after the reduced benefit took effect. This has increased unfunded past service liabilities and overall costs beyond what the costs would have been if the benefit had never been reduced.

Legislators, therefore, are under a heavy burden to make informed and carefully considered decisions on retirement legislation. A "mistake" can rarely be fixed without enacting new provisions. Even so, these revisions can only apply to employees hired after the provisions are enacted.

A Note About Fiscal Notes

The Office of Budget and Program Planning, assisted by the retirement divisions' staffs, prepares fiscal notes for all retirement legislation that has fiscal implications. However, each fiscal note is designed to show the cost only over the next biennium, even though the state's fiscal obligations will be ongoing. Legislators should be aware of the estimated short- and long-term costs of a proposal.

Basic Principles for Good Retirement Policy

In 1985, the National Conference of State Legislatures' Committee on Pensions published four principles for sound and consistent retirement policy. The Teachers' and Public Employees' Retirement Boards have adopted similar and additional principles.

1. Pensions should provide financial security in retirement.

Retirement should be defined as the completion of a working career, not the end of employment under a system.

Financial security should be viewed in terms of the minimum benefit required for a retiree to enjoy reasonable financial security in his or her later years. The benefit should reward the retiree's years of public service.

2. Pension funding should be a contemporary obligation.

Retirement benefits should be paid for at the time the service is being performed, not by future taxpayers or contributors. (Guidelines adopted by the Teachers' and Public Employees' Retirement Boards provide that unfunded liabilities should be amortized in 30 years or less.)

3. Pension investments should be governed by the "prudent person rule".*

The investment of pension capital should be carried out according to accepted standards that emphasize prudence, discretion, and intelligence and that discourage speculation. Prudent investments protect capital at the same time that they maximize earnings.

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* This rule has recently been updated to the "prudent expert rule", meaning that investments should be governed by the standards commonly accepted by experts in the field.

4. Pension benefits should be equitably allocated among beneficiaries.

This principle is aimed at preventing discrimination against any group of employees based on occupation, marital status, tenure, salary, hire date, etc. This principle is also designed to prevent discrimination between retirement systems and among members of the same system.

Summary Tables of Montana's Retirement Systems

The following tables summarize Montana's 10 statewide public retirement systems. These summary tables are not comprehensive representations of the retirement plans. However, they will provide legislators with an "at-a-glance" view of the systems.

Although the tables lend themselves to a comparison of the systems, any attempt to compare the equity of one retirement system over another should be approached with caution.

A Note About Social Security

The summary tables show that members of the Municipal Police Officers', Firefighters' Unified, and Highway Patrol Officers' Retirement Systems are not covered by social security. The summary tables also show that employer contributions to these retirement systems are higher than employer contributions to the other systems. This is consistent with the fact that no employer contributions are made to social security for members of these systems. This is also consistent with national surveys that show that members of public safety occupations are often given higher benefits than general employees.

Nevertheless, various arguments can be made on the issue of higher employer contributions to public safety officers' retirement plans. One argument is that members of these noncovered systems are entitled to larger retirement benefits because they will not enjoy social security benefits and because no employer contributions are made to social security on behalf of these employees. Others will argue that most noncovered workers will enjoy social security benefits through their spouses. Noncovered workers may also separately qualify themselves for social security by taking additional part-time or temporary positions or by getting private sector jobs following their retirement from public service. Consequently, noncovered members may actually accrue retirement benefits that exceed their basic salaries. The pros and cons of the social security question will be a subject for future political debate.

TABLE 1
PLAN FEATURES AND BASIC BENEFIT FORMULA

MONTANA'S PUBLIC RETIREMENT SYSTEMS
(As of July 1, 1992)

	PERS	TRS	SHERIFFS'	MUNICIPAL POLICE	FIREFIGHTERS' UNIFIED	HIGHWAY PATROL	GAME WARDENS'	JUDGES'
Minimum service and age required for the normal (unreduced) retirement benefit	30 yrs service, any age or 5 yrs srvc and age 60 or age 65	25 yrs service, any age or 5 yrs srvc and age 60	Pre-7/1/89 hires: 24 yrs service, any age Post-7/1/89 hires: 24 yrs srvc and age 50	20 yrs service, any age	10 yrs service and age 50	Pre-7/1/85 hires: 20 yrs service, any age Post-7/1/85 hires: 20 yrs service and age 50	20 yrs service and age 50	5 yrs service and age 65
Minimum service requirement before being vested	5 years	5 years	15 years	10 years	10 years	5 years	20 years	5 years
Provides for voluntary pro-rated early retirement benefit	Yes	Yes	Yes	No	No	Yes	No	No
Vested member may defer benefit until a later date	Yes Earliest: age 50	Yes Earliest: age 50	Yes Earliest: age 50	Yes Earliest: age 50	Yes Earliest: age 50	Yes any age	No	Yes Earliest: age 65
Basic service retirement benefit formula	1.785% x FC[1] x years of service	1.67% x FC x years of service	2.0834% x FC x years of service to 24 + 1.35% x years of service over 24 to maximum of 60% FC	2.5% x FAS[2] x years of service to 20 + 1% x FAS x years of service over 20 to maximum of 60% FAS	Pre-7/1/81 hires 2.5% x FMC[3] x years of service to 20 + 1% x FMC x years of service over 20 years of service to maximum of 60% FMC; Post-7/1/81 hires 2% x FAS x years of service to maximum of 60% FAS	2.5% x FC x years of service	2% x FC x years of service	3.33% x FS[4] x years of service to 15 + 1.785% x FS x years of service over 15

Source: Public Employees' Retirement Board, Teachers' Retirement Board, and Actuarial Reports

[1] FC = final compensation = average salary of the 3 highest consecutive years of service.
[2] FAS = final average salary = average salary of the last 36 consecutive months of service.
[3] FMC = final monthly compensation = monthly salary last received by member.
[4] FS = final salary = current salary paid to the position from which the member retired.

TABLE 2
DISABILITY AND DEATH BENEFITS

MONTANA'S PUBLIC RETIREMENT SYSTEMS
(As of July 1, 1992)

	PERS	TRS	SHERIFFS'	MUNICIPAL POLICE	FIREFIGHTERS' UNIFIED	HIGHWAY PATROL	GAME WARDENS'	JUDGES'
Disability benefits	New Plan: 1/56th x FC[1] x years of service; Old Plan: greater of either 90% of 1/56th x FC x years of service or 25% of FC; no separate duty-related disability benefit; must have 5 years of service	1/60th x FC x years of service or 25% of FC; no separate duty-related disability benefit; must have 5 years of service	Actuarially reduced normal retirement formula or 1/2 FC if duty-related plus 1% FC for each year over 20 up to 60% of FC	1/2 FAS[2] plus 1% for each year over 20 up to 60% of FAS	1/2 FMC[3] plus 1% FMC for each year over 20 up to 60% of FMC Post-7/1/81 hires: 1/2 FMC plus 2% FMC for each year over 25 up to 60% of FMC	Actuarially reduced normal retirement formula or 1/2 FC, if duty-related, plus 1% FC for each year over 20 up to 60% of FC[5]	Actuarially reduced normal retirement formula or 1/2 FC, if duty-related, plus 1% FC for each year over 20 up to 60% of FC	Actuarially reduced normal retirement formula or 1/2 FC, if duty-related, plus 1% FC for each year over 20 up to 60% of FC
Basic death benefit paid to beneficiaries of active members	1/12th FS[4] x (yrs of service or 6, whichever is less) plus member's contributions plus interest; paid to designated beneficiary	1/60th x FC x years of service or amount of member's contributions plus interest; paid to designated beneficiary	Reduced allowance based on salary and years of service at death or 1/2 FC, if duty-related	1/2 FAS paid to surviving spouse or to dependent children until age 18	1/2 FMC plus 1% FMC for each yr over 20 up to 60% of FMC; Pre-7/1/81 hires: receive 1% more for each year over 20; only to statutory beneficiaries	Reduced allowance based on salary and years of service at death or 1/2 FC, if duty-related	Reduced allowance based on salary and years of service at death or 1/2 FC, if duty-related	1/12th FS[4] x (yrs of service or 6, whichever is less) plus member's contributions plus interest; paid to designated beneficiary

[1] FC = final compensation = average salary of the 3 highest consecutive years of service.
[2] FAS = final average salary = average salary of the last 36 consecutive months of service.
[3] FMC = final monthly compensation = monthly salary last received by the member.
[4] FS = final salary = current annual salary paid to the position from which the member retired.
[5] Based on the system's basic service retirement formula.

Source: Public Employees' Retirement Board, Teachers' Retirement Board, and Actuarial Reports

TABLE 3
AVERAGE RETIREE PROFILES

MONTANA'S PUBLIC RETIREMENT SYSTEMS
(As of July 1, 1992)

	PERS	TRS	SHERIFFS'	MUNICIPAL POLICE	FIREFIGHTERS' UNIFIED	HIGHWAY PATROL	GAME WARDENS'	JUDGES'
Average retirement age	61 years	57 years	61 years	49 years	50 years	51 years	57 years	64 years
Average years of service at retirement	18.4 years	26 years	22 years	21.5 years	24.7 years	24.2 years	28.1 years	16.7 years
Average annual salary of active members[1]	$19,952	$29,706	$26,273	$25,171	$25,912	$27,464	$28,346	$62,474
Average monthly benefit (All retirees)	$456/month	$745/month	$690/month	$1,031/month	$997/month	$951/month	$1,151/month	$1,605/month
Average benefit as a percent of salary at retirement (1992 retirees)	32.86%	43.33%	45.83%	51.5%	54.7%	60.05%	56.2%	53%
Social security coverage	Yes	Yes	Yes	No	No	No	Yes	Yes

[1] Active members are employees currently working and contributing to the system.

Source: Public Employees' Retirement Board, Teachers' Retirement Board, and Actuarial Reports

TABLE 4
ACTUARIALLY REQUIRED FUNDING TO KEEP SYSTEMS SOUND

MONTANA'S PUBLIC RETIREMENT SYSTEMS
(As of July 1, 1992)

	PERS	TRS	SHERIFFS'	MUNICIPAL POLICE	FIREFIGHTERS' UNIFIED	HIGHWAY PATROL	GAME WARDENS'	JUDGES'
Total actively contributing members[1]	27,473	16,643	521	453	420	203	87	43
Total actuarial cost as a percentage of salary	13.4%	14.503%	14.37%	48.2%[2]	42.29%[2]	45.28%[2]	23.05%	48.01%[3]
Percentage of salary required to fund accruing benefits, i.e., normal cost	10.24%	9.876%	14.37%	23.35%	21.31%	27.31%	16.04%	41.15%
Percentage of salary used to amortize existing unfunded liabilities	3.14%	4.627%	0	14.85%	20.98%	17.97%	7.01%	6.86%
Unfunded liability or past service debt	$277,096,522	$579,400,000[4]	0	$35,350,743	$56,448,547	$23,736,147	$682,606	$4,183,758
Years required to amortize current debt	18.25 years	34.9 years	0	24.71 years	30.36 years	28.8 years	4.06 years	27.32 years[5]

Source: Public Employees' Retirement Board, Teachers' Retirement Board, and Actuarial Reports

1 Active members are employees currently working and contributing to the system.
2 Does not include special funding used to pay supplemental or minimum benefits.
3 Actual contributions to the JRS are less than the 48.01% required. By law, 37.71% is to be contributed from District Court fees. However, actual contributions from District Court fees (as shown on Table 5) are 22.2%, which is 12.51% short of required funding.
4 Of this amount, $30.5 million will be paid by 4.503% of the salaries of participants in the University System Optional Retirement Program.
5 This is the amortization period if the statutorily required contributions were to be made in the future; however, this will not happen without a change in funding sources.

TABLE 5
FY1992 ACTUAL FUNDING

MONTANA'S PUBLIC RETIREMENT SYSTEMS
(As of July 1, 1992)

	PERS	TRS	SHERIFFS'	MUNICIPAL POLICE	FIREFIGHTERS' UNIFIED	HIGHWAY PATROL	GAME WARDENS'	JUDGES'
Total annual payroll covered	$548,152,580	$425,125,229	$13,688,154	$11,402,679	$10,883,033	$5,575,233	$2,466,111	$2,686,371
Employer contribution	6.55%[1]	7.459%	7.67%	13.92%	13.02%	36.28%	7.15%	6.0%
Employee contribution	6.55%[1]	7.044%	7.00%	6%/7.2%/8.7% depending on hire date	6.0%	9.0%	7.90%	7.0%
Additional funding from other sources as a percentage of payroll[2]	None	None	None	Insurance premium taxes: 15.66% (for basic benefits) 10.66% (for supplemental benefits)	Fire insurance premium taxes: 23.27% (for basic benefits) 9.31% (for supplemental benefits)	Vehicle registration fees: 4.62% (for lump-sum supplemental benefits)	Fines and forfeitures: 10.1%	District Court fees: 22.2%[3] Supreme Court fees: 3.8%
Percentage of payroll used to fund normal costs	10.24%	9.876%	14.37%	23.35%	21.31%	27.31%	16.04%	39%[4]
Percentage of payroll to unfunded liabilities	3.14% (3.18% on 7/1/93)	4.627%	0	14.85%	20.98%	17.97%	7.01%	0[5]
Total actual FY cost as a percentage of total payroll counting all funding	13.1% (13.4% on 7/1/93)	14.503%	14.67%	48%	51.6%	49.9%	25.15%	39%

1 Increasing to 6.7% on 7/1/93.
2 Does not include the 2.5% benefit adjustment paid from the general fund to each system as required by Ch. 823, L. 1991.
3 This is 2.15% of payroll less than the 34.71% District Court fee contribution required by statute.
4 This is 12.51% of payroll less than the 48.01% required to pay for the normal cost of benefits and to amortize the debt as shown on Table 4.
5 Because total actual contributions (39%) do not cover even the normal cost of the system (41.15%), no funds are left to make payments on the unfunded liability.

Source: Public Employees' Retirement Board, Teachers' Retirement Board, and Actuarial Reports

TABLE 6

VOLUNTEER FIREFIGHTERS' COMPENSATION ACT

(As of July 1, 1992)

PENSION PLAN FEATURES	VOLUNTEER FIREFIGHTERS' PENSION FUND
Minimum service and age for normal (unreduced) retirement	20 years of service and age 55
Vested	After 10 years of service
Basic benefit formula	$120 per month for 20 years of service (prorated for 10 years through 19 years of service)
Disability	If injured in line of duty, fund pays for necessary and reasonable medical expenses, not to exceed $25,000 within 36 months of injury
Death benefit	Actual funeral expenses (only if killed in the line of duty), not to exceed $1,500, are paid to funeral provider; member's entitlement, not to exceed a total of $4,000, is paid to surviving spouse or children until spouse remarries or children reach 18 years of age
Membership	517 retirees; 4 survivors
Contributions	Funded entirely by insurance premium taxes
FY 1991 through FY 1993 benefit	$120 per month for 20 years of service
Total benefits paid in FY 1992	$699,557

TABLE 7

UNIVERSITY SYSTEM OPTIONAL RETIREMENT PLAN
(As of July 1, 1992)

PLAN FEATURES	UNIVERSITY SYSTEM OPTIONAL RETIREMENT PLAN
Minimum service and age for normal retirement	None. Member may begin receiving benefits at any time based on the full current value of the member's accumulated annuity.
Benefit formula	As a defined contribution plan, a member's monthly annuity depends on total contributions plus investment earnings and on the income option a member selects.
Disability benefits	None, except for the member's annuity income, which can begin at any time.
Death and survivor benefits	The full current value in a member's annuity account is payable to the beneficiary before retirement. The benefit can be paid in a single sum, as an annuity income to the beneficiary for life, or as an annuity income for a fixed period of years. The annuity may also be deferred as federal law permits.
Social security coverage	Yes.
Total active members	675
Total payroll covered	$22,243,000
Employer contribution as a percentage of payroll	2.956%
Employee contribution as a percentage of salary	7.044%
University System's contribution to TRS unfunded liability	4.503%
Total contributions	14.503%

TABLE 8
POSTRETIREMENT ADJUSTMENTS TO MONTANA'S PUBLIC RETIREMENT SYSTEMS

METHOD GIVEN	SYSTEM(S) COVERED	AVERAGE INCREASE PAID 1/1/92
(1) Retirees are paid an additional monthly retirement adjustment based on the system's investment earnings. Retirees are paid a portion of the investment earnings above 8%, which is the average yield assumed by the actuary.	PERS TRS Sheriffs' Game Wardens'	\$7.03/month (1.67%) \$10.04/month (1.55%) \$22.72/month (4.09%) \$8.59/month (0.84%)
(2) Retirees are paid a minimum benefit that is equal to 1/2 the salary of a newly confirmed member. This adjustment is funded by annual payments from the state's insurance premium tax fund.	Municipal Police Officers' Firefighters' Unified	Maximum benefit varies by city and individual retiree
(3) Retirees are paid a minimum benefit by changing the basic formula to reflect the current salary of a probationary patrol officer. Also, pre-7/1/91 retirees receive an annual lump-sum supplement funded by an additional 25-cent vehicle registration fee.	Highway Patrol Officers'	Minimum benefit varies by individual retiree; supplemental benefit for pre-7/1/91 retirees in FY1992 was \$1,937 (18.06%)
(4) Retiree benefit allowances are increased based on the current salary paid to the office from which the member retired.	Judges'	Received approximately a 4% increase every 6 months beginning 7/1/91 to 7/1/93 based on salary increases for active judges

Conclusions

When considering retirement legislation, legislators should ask a few basic questions to help clarify the issues and to ensure sufficient information is provided to make well-considered, informed decisions:

- What is the purpose of the retirement plan?
- Is the proposed change consistent with that purpose?
- How are the other public retirement systems affected? Should the change be enacted for any of the other systems?
- What will the proposed change cost, if anything?
- Is the cost responsibly and fairly funded? Are the funding sources consistent and sufficient to both cover normal cost and reasonably amortize the system's unfunded liabilities?
- What are the short-term and long-term fiscal and policy implications of the proposed change?

Obviously, each legislator may answer these questions differently as the legitimate interests of current and future retirees are measured against the state's fiscal limitations.

However, the overall objective is to ensure that retirement policy adopted by the Legislature will equitably and consistently address the needs of the state's current and future public retirees.

Glossary of Retirement Terms

Active members - Persons currently employed in positions covered by the retirement system, earning service credits, and contributing a percentage of their salaries to the retirement system.

Actuarial valuation - A mathematical process used to determine the financial condition of a retirement system at a particular point in time and to project the system's future funding needs. (See page 17 for a more detailed discussion.)

Annuity - Equal and fixed payments for life that are calculated to be the actuarial equivalent of a lump-sum payment. This lump sum is usually the member's accumulated contributions, plus interest. An annuity is not a service, disability, or survivorship benefit and may not be adjusted by a COLA, GABA, or any other postretirement adjustment.

Benefit formula - The mathematical formula used to calculate the service, disability, or survivorship benefit in a defined benefit plan. This formula defines the benefit as a certain percentage of the member's salary at retirement per year of service. For example: 1/56th x salary x years of service = monthly pension.

COLA - A Cost-of-Living Adjustment. This term refers to an increase in a retiree's monthly benefit based on a rise in the cost of living.

Defined benefit plan - A retirement plan that promises certain benefits (defined by a formula) at an actuarially determined cost. The cost is expressed as a level percentage of active members' salaries.

Defined contribution plan - A retirement plan that provides varying annuities defined by contributions on account and by a member's age and choices of payout on the day the member retires. No adjustments may be made to the monthly payout after the annuity is initiated.

GABA - A Guaranteed Annual Benefit Adjustment. This term refers to an automatic increase in a retiree's monthly benefit allowance by an amount that is specified in statute but which may not be formally connected to the cost of living.

Inactive members - Members of the retirement system who have contributions in the system but who are no longer employed in positions covered by the system. Inactive members are no longer earning service credits or contributing a portion of their salaries to the retirement system.

Normal cost - The level percentage of total salaries required to fund the benefits promised to members of a retirement system as the benefits accrue.

Normal retirement - The full retirement benefit that is paid when a member has completed the minimum years of service and/or attained the minimum age required. Although early retirement benefits are paid, sometimes on a prorated basis, these benefits are not considered normal retirement benefits.

Pension - A benefit paid by an employer to a retiree or survivor because of previous service performed for the employer.

Unfunded liability - That portion of the total liabilities of the system that cannot be funded by the system's current assets or the anticipated future normal contributions of members and employers plus anticipated investment earnings. Individual unfunded liabilities are created when a benefit is promised for service performed prior to the benefit's effective date when contributions are not raised sufficiently to pay the normal cost of the benefit as it will accrue. (See page 19 for a more detailed discussion.)

Vested - A member of a retirement system is vested after being an active member for a certain minimum number of years. After becoming vested, a member has specified rights under the system. If a member terminates employment under a system before being vested, the member will be eligible only for a refund of the member's accumulated contributions, plus interest.

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